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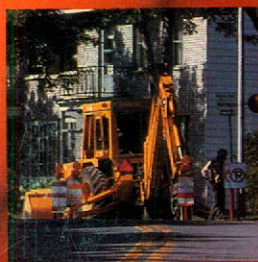


TABLE OF CONTENTS

Highlights of the Year	2
Report to Shareholders	4
Outlook	9
Activities	10
Financial Review	20
Financial Statements	23
Map of Territory	35
Directors	36

Our cover:

The hundreds of kilometres of pipes installed in 1982 are doubtless the most visible evidence of Gaz Métropolitain expansion. The inserts show the three sectors in which the Company is active: residential, commercial and industrial.

The annual general meeting of shareholders will be held at the Hôtel le Centre Sheraton in Montréal, Québec, on Monday, April 25, 1983 at ten o'clock.

The dawn of a new era

Gaz Métropolitain, the largest distributor of natural gas in Québec, began its operations in 1957. A public utility serving 160,000 residential, commercial and industrial customers, the Company is subject to the control and supervision of the *Régie de l'Électricité et du Gaz du Québec*.

The territory, expanded in 1981, includes the island of Montreal and the cities and towns located within a 40 km radius. The pool of customers represents 65% of the potential market for natural gas in Québec. For some time, natural gas has benefited from a clearly expressed policy of the federal and provincial governments to increase the share of natural gas in Québec's energy balance.

It is within this context that in 1982, Gaz Métropolitain began an expansion of its distribution system which will result in substantial growth of both investments and sales in the next five years.

The majority of Gaz Métropolitain common shares are held by residents and firms in Québec. Shares are listed on the Montréal and Toronto Stock Exchanges under GZM.

1982 was a very satisfying year for Gaz Métropolitain, as its principal results testify.

Earnings for the year (Figure I) were \$28,262,000, an increase of 110% over 1981. This result, mainly due to the achievement of objectives and an improvement in the regulatory context, made it possible to obtain a return of 17.4% on shareholders' equity (Figure II) or \$1.05 per share (Figure III), an increase of 52% of the earnings per share over 1981.

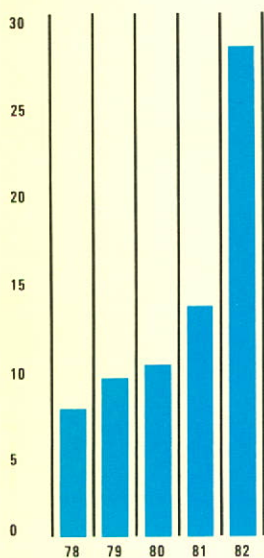
The impact of the recession on industrial and commercial consumption and of energy conservation on the residential sector was felt in gas sales (Figure IV), which amounted to 2.7 billion cubic metres, a decrease of 6% over the previous year.

Figure V shows the growth of capital expenditures over the last five years. In 1982, they amounted to \$102,130,000, an increase of 100% over 1981. Expansion to enlarge the pool of potential customers accounted for the major portion of the outlays.

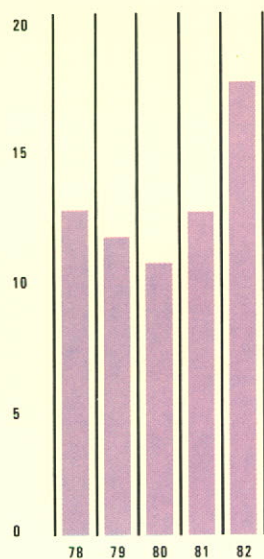
The Company successfully floated three issues of securities during the year, two of them on the Eurobond market. This is the first time in the history of Gaz Métropolitain that this source of funds was used. On December 31, 1982, the financial structure of the Company (Figure VI) consisted of 51% long-term debt, 13% preferred shares and 36% common equity.

The annual dividend in 1982 was \$0.52 per share (Figure II). This is a substantial increase, amounting to 30% over last year. The Company retains a portion of its earnings to provide a firm foundation for its future growth.

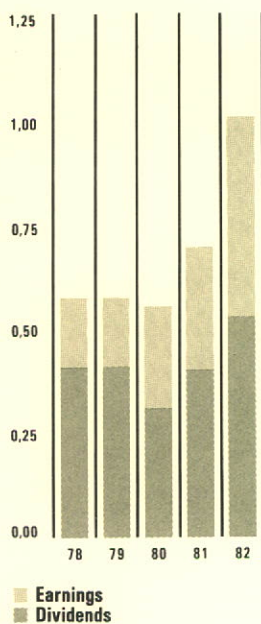
I
Net Income
(in millions of \$)



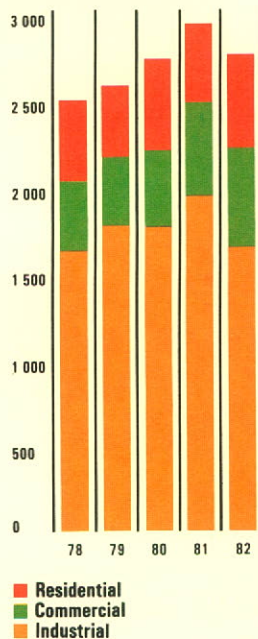
II
Return on
Common Equity
(in %)



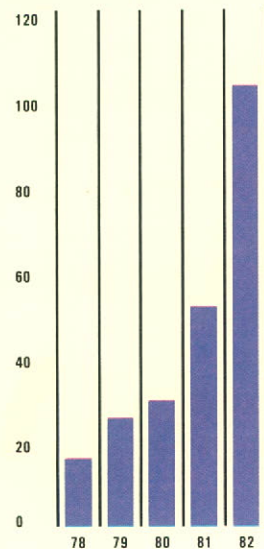
III
Earnings and Dividends
Per Common Share



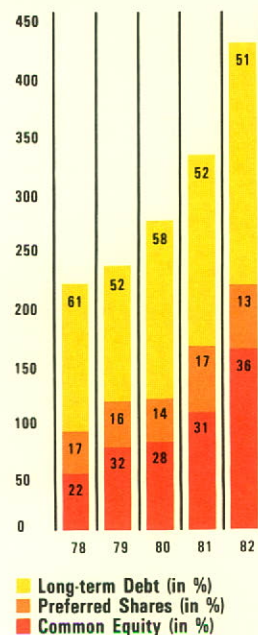
IV
Breakdown
of Sales Volume
(in millions of cubic meters)



V
Capital
Expenditures
(in millions of \$)



VI
Capitalization
(in millions of \$)



Principal Results

Gaz Métropolitain passed some important milestones in the development and diversification of its activities in 1982.

Far from experiencing the slowdown which affected many North American companies during this recessionary period, the Company has continued its expansion, making major injections of capital into Québec's economic recovery in the process. During the year, the Company undertook major programs to expand and modernize its system, in addition to making major administrative changes. The Company contributed to the creation of over 4,500 jobs and an economic impact of over \$220,000,000.

The sales of natural gas recorded a decrease of 6% over 1981, despite investments of more than \$100,000,000 and more than 10,000 connections. This decrease is due to the 15.3% drop in sales in the industrial sector, where consumption was reduced under the combined impact of the recession, the presence of major stocks of surplus fuel oil and abnormally high temperatures during the cold season. Although disappointing, these results compare favorably with the decrease of 12.6% in oil consumption experienced in Québec for the same period.

In view of the decline in industrial sales, the Company tightened the controls on its expenses, so that the competitive advantage of natural gas could be maintained. At the same time, the Company intensified its efforts to increase sales and exploit the potential of the expanding system.

This way, the impact of the decrease in the volume of sales on earnings was contained. Net operating profits for the fiscal year were \$28,262,000, an increase of 110%. The return on shareholders' equity amounted to 17.4%, up 39.2% over last year.



Chairman
of the Board

Pierre Martin

Pierre Martin

Major Events

The large-scale expansion of the system and of Gaz Métropolitain distribution activities was clearly the most important activity of 1982. Regionalization enabled the Company to expand its system along the outskirts of its traditional territory, linking Joliette, Saint-Jean-sur-Richelieu, Valleyfield and Saint-Eustache. A parallel program to replace and improve the gas mains in certain older sectors of the system was also implemented. All this work, which required capital expenditures of more than \$100,000,000, should result in an increase in customers and an improved competitive position in coming years.

The regulatory environment was characterized by the continuation of a climate well suited to the expansionary program. The administrative schedule of the *Régie de l'Électricité et du Gaz du Québec* was modified to grant provisional increases at the beginning of the year, thereby eliminating delays in the receipt of supplementary revenues. Various stabilization accounts were also instituted, in order to reduce the income fluctuations associated with factors beyond the Company's control. Finally, rate reviews are now made on the basis of projected data, thus reducing the impact of inflation on costs.

Preserving the competitive advantage of the price of natural gas has been and continues to be a major concern. To expand, Gaz Métropolitain must offer consumers a product which is rendered even more economical by the combined effect of a lower price and a reduced conversion cost. The abolition of the 9% provincial sales tax on natural gas and the implementation of development rates, under an agreement with the Canadian government, will go a long way to keep natural gas competitive. Moreover, continuation of the Canadian conversion subsidy programs, combined with Gaz Métropolitain's own programs, will continue to promote conversions.

With respect to labour relations, intensive negotiations led to an agreement that ended the strike of operating personnel. Office employees also renewed their collective agreement during the year.

Financing and Financial Structure

Implementation of the expansion program meant a substantial increase in financing requirements in 1982, and the trend is expected to continue for several more years.

The Company went to the money markets three times in 1982. An issue of common shares raised \$44,825,000, and two issues on the Eurobond market brought in \$60,000,000. As a result of the improvement in the Company's credit rating, future long-term debt issues should be floated at even lower cost and receive even better treatment on the various financial markets.

By carefully structuring its financing, the Company will be able to maintain a well balanced financial structure which will allow the return on shareholders' equity to be maximized while rates are kept at the lowest possible level.

Dividends

In view of the positive results in the first quarter and the encouraging prospects for the remainder of 1982, the Company raised the quarterly dividend from \$0.10 to \$0.14 per share in the second quarter. The total of dividends for the year rose to \$0.52. The Company intends to maintain a policy, which allows the shareholders to obtain attractive current return without undermining the future development of the Company.

1983, Consolidation

The goals of the Company's five-year development plan are to substantially increase its share of the energy market, maintain its profitability and diversify its activities. However, natural gas cannot increase its penetration if it does not preserve its competitive edge over other forms of energy.

1983 will be a year of consolidation. The Company will seek to firm up its market position, to build a solid foundation for the resumption of accelerated growth that will benefit customers, employees and shareholders.

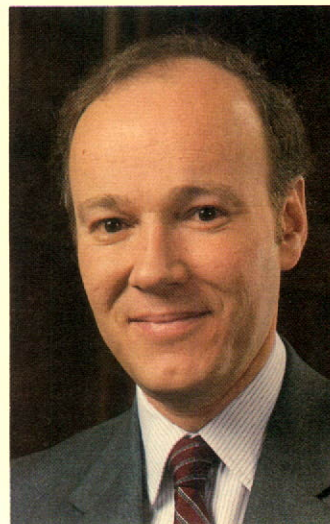
This year, the Company will continue to expend the efforts necessary to find lasting solutions to the problems caused by the presence of surplus fuel oil, so that petroleum substitution activities can be harmonized.

Furthermore, in 1983 Gaz Métropolitain will pursue its initial diversification program while continuing to contribute to the industrial development of Québec. In fact, in 1982 the Company was already involved in the sale of compressed natural gas for motor vehicles.

Acknowledgements

At the end of March 1982, Jean Gaulin was appointed President and Chief Executive Officer of the Company. On April 15, Pierre Martin, President of SOQUIP (*Société québécoise d'initiatives pétrolières*) became Chairman of the Board of Directors and Jean Gaulin, Jean-René Halde and Robert Léo Vachon became Directors of the Company. The Company also adopted a new management structure, defined in terms of its major operating sectors and expansion opportunities.

The Company wishes to express its appreciation to the outgoing members of the Board: Pauline Ouimet, Jean-Baptiste Bergevin, Carol Moisan and Claude Pichette. It also wishes to thank its employees, who have successfully met the many challenges so characteristic of this year of expansion.

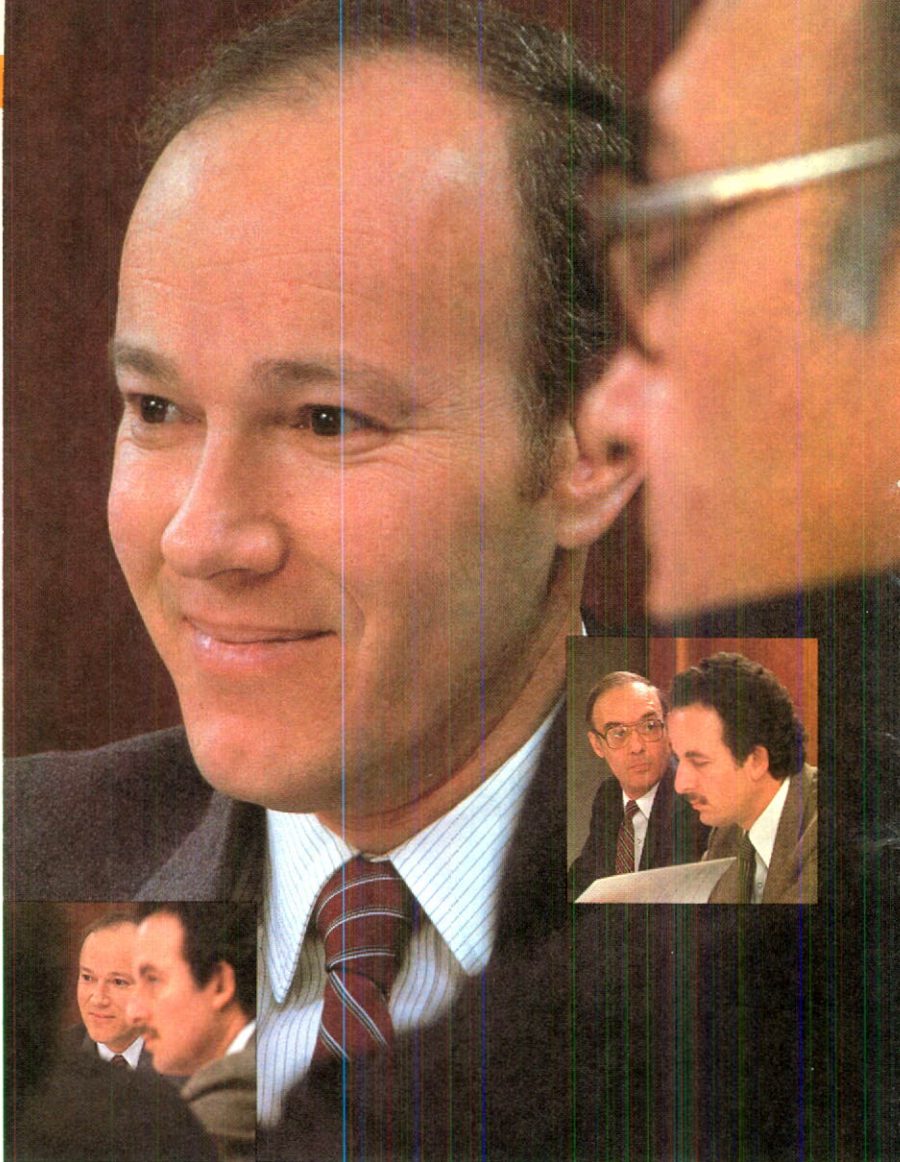


President and
Chief Executive Officer

Jean Gaulin

Jean Gaulin

The management committee of the Company decides general policy, selects the measures to implement its objectives and evaluates the progress achieved. Here are the committee members at a meeting.



Luc Meilleur, Vice President, Human Resources, with André Caillé



Gaston LongVal, Vice President, Operations



Joseph Baladi, Vice President, Energy Resources and Development, with Jean Gaulin



**Jean Gaulin, President and Chief Executive Officer
Robert Noël, Vice President, Marketing, with Joseph Baladi**



Marc Fortier, Vice President, Legal and Secretary



André Caillé, Vice President, Corporate and Public Affairs, with Donald Hotte



Robert Normand, Vice President, Finances and Regulatory Matters



Donald Hotte, Vice President, Administration

Fiscal 1982 has been a remarkable year for Gaz Métropolitain. The Company has taken a giant step in its plan to expand the natural gas system, substantially increased its distribution activities and regionalized its management structure.

A five-year development plan prepared during the year should enable the Company to record a 40% increase in sales by 1987 and invest \$700,000,000 within its franchise.

However, before continuing to expand its system and making the required investments, Gaz Métropolitain will devote 1983 to consolidating what it has acquired. The Company will continue its administrative reorganization and take the time to reevaluate the energy and economic environment.

More specifically, during 1983, Gaz Métropolitain will focus its efforts in four areas. First, to maintain current advantages over competitors, the Company will compress the growth in expenses by limiting wage increases to 6% and by continuing to improve the efficiency of management. It will also rationalize investments, mainly by concentrating a major part of development along existing mains. It will increasingly coordinate activities with intermediaries, so that expansion occurs in the most economic way possible.

Finally, the Company will proceed to analyse the available avenues to allow it to diversify its activities in the medium and long term.

Gaz Métropolitain is convinced that its development is indissolubly linked to the preservation of an economic advantage for the consumer to use natural gas instead of oil or electricity, the maintenance of attractive working conditions and development opportunities for its employees, and the expectations of its shareholders.

Gaz Métropolitain expects to increase its volume of sales to all market segments by 40% in the years to come.

Operations

Gaz Métropolitain operates an underground natural gas distribution system throughout its territory, which includes the island of Montréal and cities and towns located within a 40 km radius. In 1982, the Company began a major expansion of its system, to increase its capacity and supply regions not previously served with natural gas.



The expanded Gaz Métropolitain territory includes more than 65% of Québec's potential natural gas market.



During 1982, the Company installed several kilometres of flexible polyethylene mains. Direct burial allows substantial savings of both time and money.

Capital Expenditures

In 1982, Gaz Métropolitain achieved its objective by making more than 10 000 connections to some 23 500 dwellings and 2 000 commercial and industrial establishments. During the year, the Company installed more than 423 km of new mains.

In addition, the existing infrastructure was improved, in order to increase distribution capacity and reduce operating expenses.

All this work required investments of \$102,130,000. As a result, Company capital expenditures during 1982 were 100% higher than in 1981.

The capital expenditures required for expansion are very large (particularly for the extension of the system), and they have already and will again require recourse to the money markets. Implementation of this program will not be allowed to detract from the profitability of the Company, however. In selecting its projects, the Company verifies that the various market segments are balanced, in order to ensure that the investments will be profitable.

The equilibrium must reflect the necessity of profitability as well as the balancing of demand, stabilization of risks from the fluctuation of sales and consolidation of the competitive edge of natural gas over other forms of energy.

Conscious of the economic impact of its capital expenditures, Gaz Métropolitain has implemented a purchasing policy which is intended to favor Québec suppliers and increase the Québec content of the goods, equipment and services it requires. In 1982, out of total purchases of nearly \$70,000,000, about \$55,000,000, or more than 75%, were spent in Québec.

TABLE I
Book Value of Capital Investments
at December 31, 1982

(in thousands of dollars)	December 31, 1982	
	Original Cost	Net Value
Storage	\$ 13,504	\$ 9,202
Distribution	374,159	333,447
Leased Equipment	11,556	5,565
General Installations	27,196	19,676
Deviation from the accumulated amortization (see Note 4 of the Notes to the Financial Statements)	—	9,580
	\$426,415	\$377,470



The pipeline crosses rivers, streams and lakes.

Expansion

Market opportunities and the availability, quality and price of natural gas were some of the factors which encouraged Gaz Métropolitain to start a major expansion in 1982. This expansion takes three forms: the improvement of the existing system, to increase its service capacity; the development of laterals along existing mains; and the extension of the natural gas system to peripheral regions not previously served.

In large part, the expansion was carried out by the direct burial of Québec-made polyethylene pipe. This work made it possible to begin providing service to the city of Joliette, to complete the first phase of the master system to Saint-Jérôme and to continue the expansion, particularly in Montréal-Nord, Longueuil, Laval, Saint-Jean-sur-Richelieu and Dollard-des-Ormeaux.

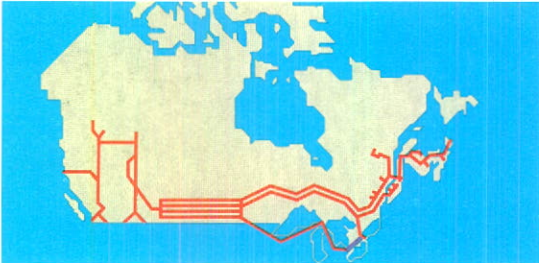
The Company also replaced or improved some 80.67 km of pipe, making it possible to enlarge its clientele along the already existing system and reduce operating and maintenance costs. Company installations consist mainly of 3,094.6 km of mains, 168,481 meters and a storage plant. Table I indicates the book value of these installations at December 31, 1982.



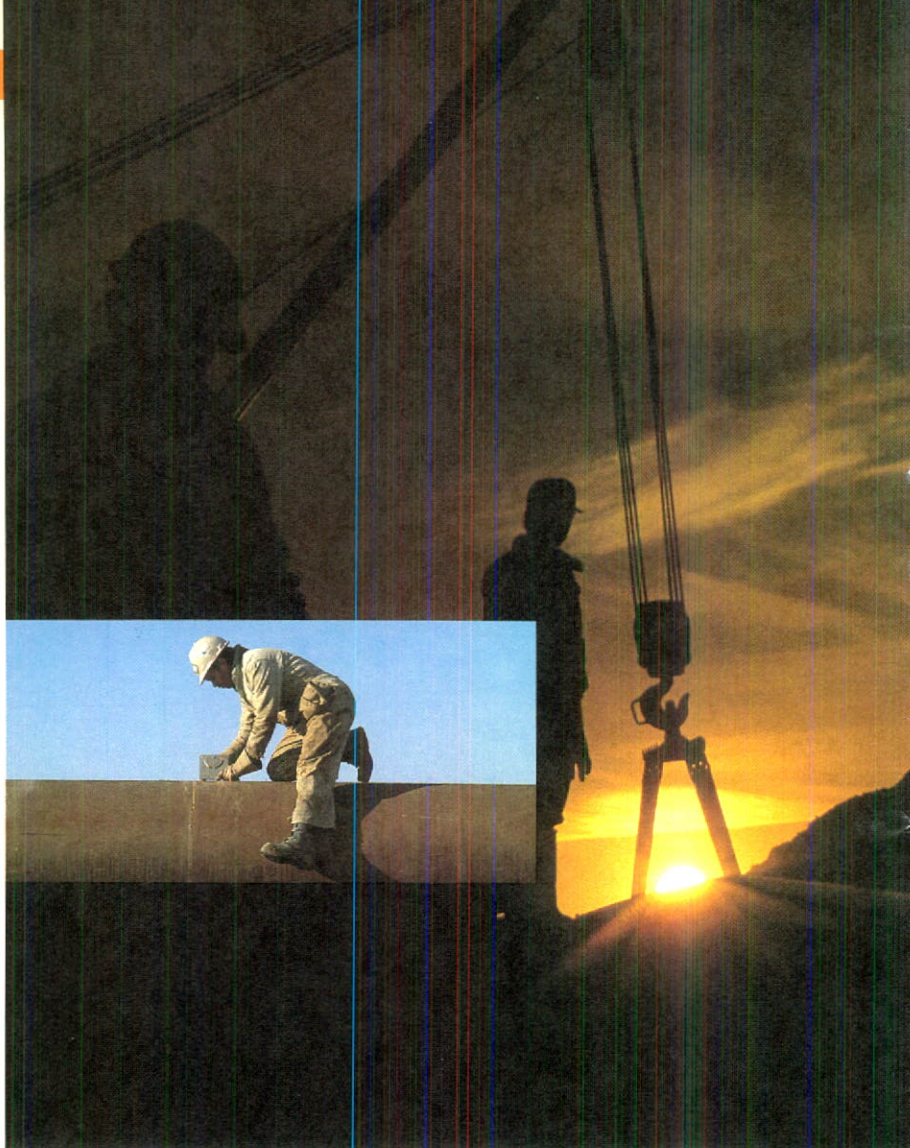
An excavator clears the way for gas to serve a new town in the Gaz Métropolitain territory.

Gas Supply

Gaz Métropolitain receives natural gas from Western Canada, where reserves assure secure supplies for at least 30 years. The Company has long-term supply contracts that will satisfy the demand forecasted in its territory.



The TransCanada system (9 783 km of pipelines, including double piping), brings gas from the West to Montreal.



Reserves

In its January 1983 report, the National Energy Board estimates that in traditional regions, Canada has 2 142 billion cubic metres of proved commercial gas reserves. The Board anticipates probable additions to reserves of 1 180 billion cubic metres by the year 2000.

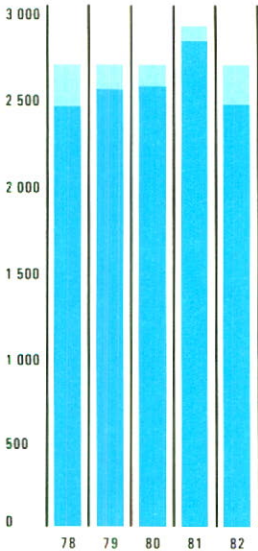
Total demand, including authorized exports, needed by Canada until 2000 have been estimated by the Board at 1 844 billion cubic metres. Therefore, Canadian gas reserves should be sufficient to supply Canadian needs for at least 30 years.

Supply and Purchase Contracts

Gaz Métropolitain's main suppliers of natural gas are TransCanada PipeLines Limited (TransCanada), PanAlberta Gas Limited (PanAlberta) and, as of December 1982, TransQuébec & Maritimes (TransQuébec). Base contracts provide annual supplies of 3,803 million cubic

Québec, New Brunswick and Nova Scotia will have a pipeline connected to the trans-Canadian system. Above, the section linking Trois-Rivières and Québec City.

Contractual Purchased Volumes
Contractual Volumes (10⁹m³)



*CD: Contract Demand Service
T: Transportation Service

metres, enough to satisfy current and future demand, even with planned expansion.

In 1982, Gaz Métropolitain purchased 2,833 million cubic metres, or 92% of the volume available under its base contracts, compared to 97% in 1981.

In addition, the Company reached an agreement with the Government of Canada which since November 1, 1982, has exempted it from certain fixed costs for transported volumes of gas that were contracted for but not used. The exemption applies for the first three years of new long-term purchase contracts. This market promotion program makes it possible to buy natural gas at the best possible price during the first years of service of new markets, no matter what volumes are sold.

Two contracts concluded in 1982 will benefit from this agreement. One with TransQuébec for the delivery of 50,000 cubic metres per day and the other with TransCanada for the supply of more than 3 000 000 cubic metres per day in addition to the volumes supplied under its base contracts.

Storage

Gaz Métropolitain has storage facilities which allow it to optimize annual and seasonal use of its supplies and satisfy demand for the high consumption periods. This enables

the Company to avoid having to contract for more expensive maximum daily deliveries from its suppliers.

An agreement with Union Gas Limited allows for the storage of natural gas in their storage facilities for delivery during the winter.

Gaz Métropolitain also has a liquefied natural gas peak-shaving plant (LNG) in Montréal.

During 1982, 128.6 million cubic metres were withdrawn from reserves stored with Union Gas Limited. The LNG plant provided 46 million cubic metres which were regasified. These figures give an indication of the usefulness of the additional reserves, both economically and for security of supply.

Cost of Natural Gas

Under Canada's National Energy Program, the cost of natural gas is set at 65% of the average price of crude oil of equal calorific value delivered to Toronto refineries.

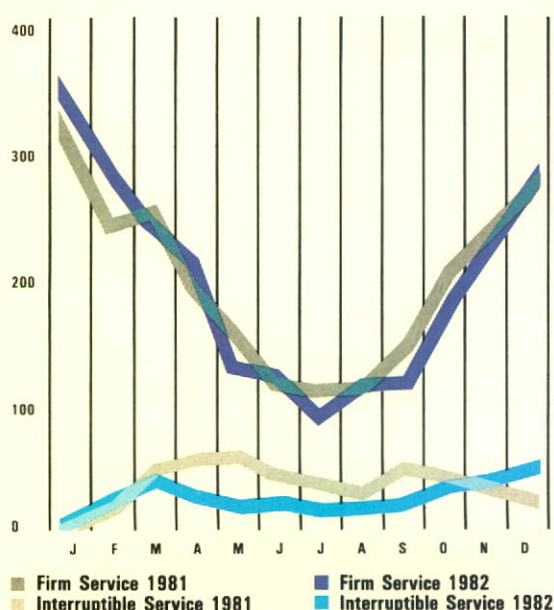
The Figure (right) shows the changes in the price of natural gas and its components over the last five years. Under a 1981 agreement reached between the government of Canada and Alberta, the price at the Alberta border was set at \$81.76 per thousand cubic metres, to be increased by \$8.83 every six months until 1986. Transportation costs are regulated by the National Energy Board and rise to reflect the service costs of contractual transporters, TransCanada and TransQuébec in particular. Finally, federal taxes are adjusted to fix the total cost at 65% of the price of crude oil, within the terms noted above.

On December 31, 1982, the price for firm supplies was \$144 per thousand cubic metres. In the international energy context, some stabilization of the cost of natural gas can be expected, so that future increases may be much less marked than those in the past.

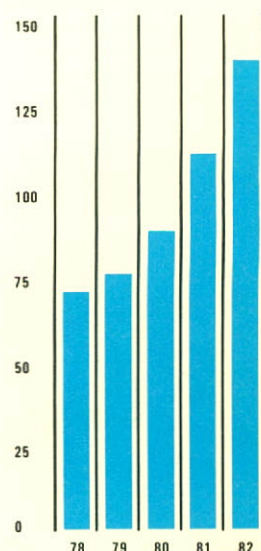


Supplementary reserves stored at the LNG plant provide peak-shaving gas during winter months.

Seasonal Variation in Annual Demand 1981 and 1982

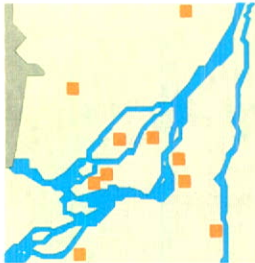


**Annual Average Cost
(\$/10³m³)**

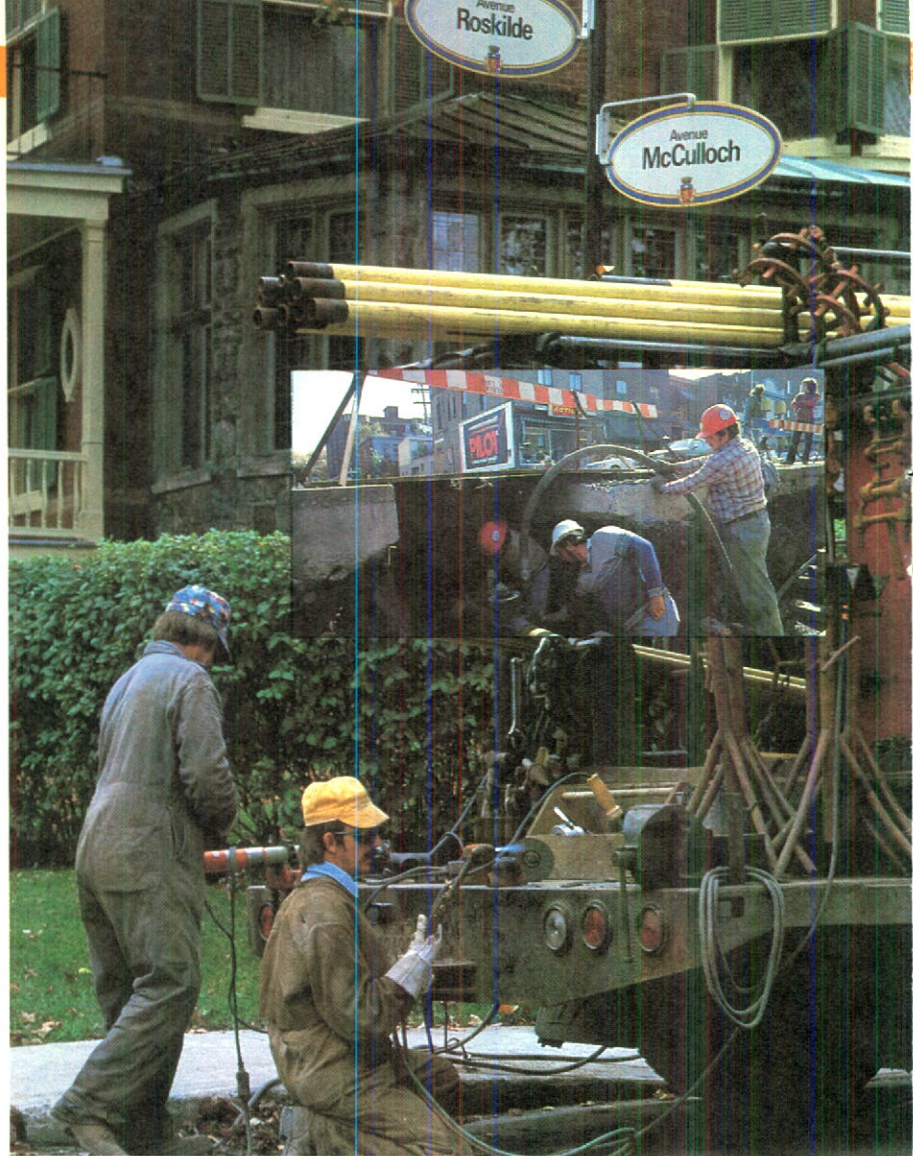


Marketing

Gaz Métropolitain serves some 160 000 residential, commercial and industrial customers. Sales of natural gas are about 2.7 billion cubic metres annually. The Company's expansion program calls for the number of its customers to increase to 280,000 and sales to reach 4.7 billion cubic metres by 1990.



Systematic market surveys have made it possible to focus the development of the system on 10 new sectors.



Marketing Objectives

In 1982, Gaz Métropolitain had two complementary marketing objectives: to continue the penetration of the commercial and industrial market, which is the base of future development, and to increase the Company's share of the residential market, which, in view of the fluctuations of the economy, offers stability of income.

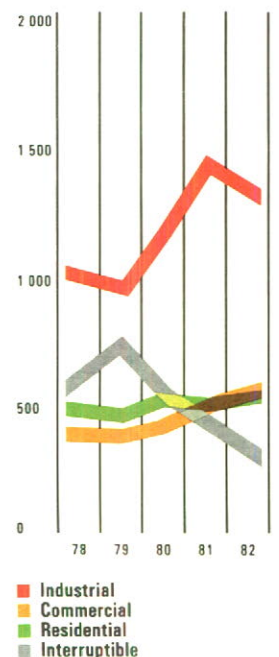
Detailed planning has led the Company to divide its development efforts between the expansion of the system and the acquisition of new customers along the existing system. Ten new geographical sectors were linked to the system, while in some sectors on the island of Montréal, modifications were made to the gas mains to satisfy the increased demand.

Company marketing efforts succeeded in obtaining new customers, representing annual consumption of 365 million cubic metres. Some 23,500 dwellings were serviced. In almost all cases, these involved the conversion of oil-burning systems to natural gas. This helped offset the

Specialized teams install connections in residential, commercial and industrial buildings.

Inset: the installation of a transition fitting on a steel and thermoplastic pipe.

Growth of Sales (10⁶m³)



generalized decrease in consumption due to energy conservation programs.

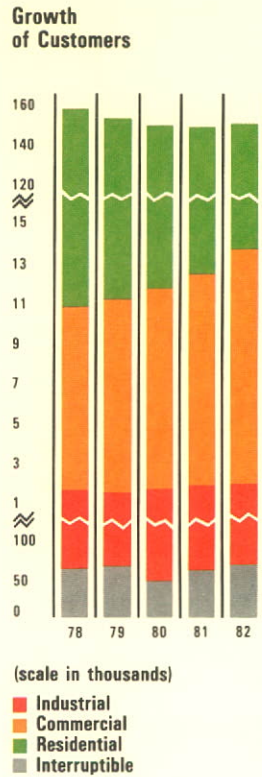
In the industrial and commercial sector, 2,039 new customers for an estimated total consumption of 122 million cubic metres per year were connected. The full impact of these new loads, which will compensate for the effect of the recession on energy consumption, will only be felt in 1983.

The industrial large volume market offers a major challenge because of the slow-down in activities caused by the state of the economy as well as the strong attraction exerted by the surpluses of fuel oil offered at very competitive prices to these industrial large volume consumers. Nevertheless, the Company was able to acquire new loads in this market segment, representing some 180 million cubic metres.

Marketing Strategy

Because natural gas is generally more economical than other sources of energy, it has a competitive edge which reflects the desire of governments to increase the share of gas in Québec's energy balance.

Gaz Métropolitain is making every effort to maintain this economic advantage and facilitate access to gas by offering incentives to potential customers that result in lower conversion costs. It has established Company conversion subsidies programs and administers the federal government's program. During the year, no less than 12,617 applications for subsidies were processed under these programs, resulting in payments of some \$12,000,000 to consumers.



These measures were supported during the year by an extensive print campaign to inform the general public. At the same time, information booths set up in shopping centres in areas targeted for expansion of the distribution system provided substantial support for sales efforts. Gaz Métropolitain's exhibit at the 1982 Salon de l'Habitation earned the Habitas 82 trophy, awarded by the Montréal Chamber of Commerce.

Diversification

Because it seeks continued long-term growth, Gaz Métropolitain will develop in 1983 a plan and a structure which will allow the diversification of its activities.

In 1982, the Company took the first step along these lines, joining SOQUIP and CNG Fuel Systems in establishing GNC Québec Ltd., a company founded to promote the use of natural gas as a fuel. A natural gas conversion centre for motor vehicles has been opened in Montréal.

As a leader in this area, Gaz Métropolitain has undertaken to convert its entire fleet of 350 vehicles to operate on compressed natural gas. At the end of January 1983, 50 vehicles had been converted and another 130 conversions will be completed by year's end.



Gaz Métropolitain displays make consumers aware of the advantages of natural gas.



The conversion of the fleet to natural gas will allow annual savings of about 40% of fuel costs and \$100 in maintenance per vehicle.

Human Resources

Gaz Métropolitain has 1 266 employees; 888 are unionized and belong to one of three different bargaining units. The Company offers a complete program of fringe benefits, including a pension plan and life, health and disability insurance. Human resources play a leading role in the implementation of the Company's plans, particularly in these years of expansion.

Labour Relations

Growth requires more skilled labour. To satisfy its needs, the Company first turned to its own staff, before recruiting workers from outside. Some 91 new employees were hired in 1982.

The Company and le Syndicat des employés de Gaz Métropolitain, inc. (CNTU), representing 535 manual workers, signed a collective agreement which will expire on September 30, 1983. Intensive bargaining sessions contributed to bringing the parties closer together, and on June 25, 1982, a work stoppage which began on March 1, 1982 was brought to an end.

On September 20, 1982, after negotiations which took place in an atmosphere of collaboration and trust, the Company signed an agreement with its 330 office workers that expires on August 31, 1984. In compliance with the Company's 1983 wage



Checks made at various stages of the construction ensure that high quality standards are met.

policy, this agreement calls for a wage increase of 6% in the second year of the agreement.

During the year, working in close collaboration with the Government of Québec and other natural gas distributors, Gaz Métropolitain designed a course in gas technology. Approved by the Québec Department of Education, this course is now offered at la Polyvalente Daniel-Johnson. It is the first of its kind in Québec.

Finally, management is working to improve its relations with its employees and firmly intends to continue in this direction. A management and job improvement program has been devised to further this goal, and it is expected to begin to bear fruit in 1983.



Expansion means a growing number of engineering, marketing and data processing specialists must be recruited.

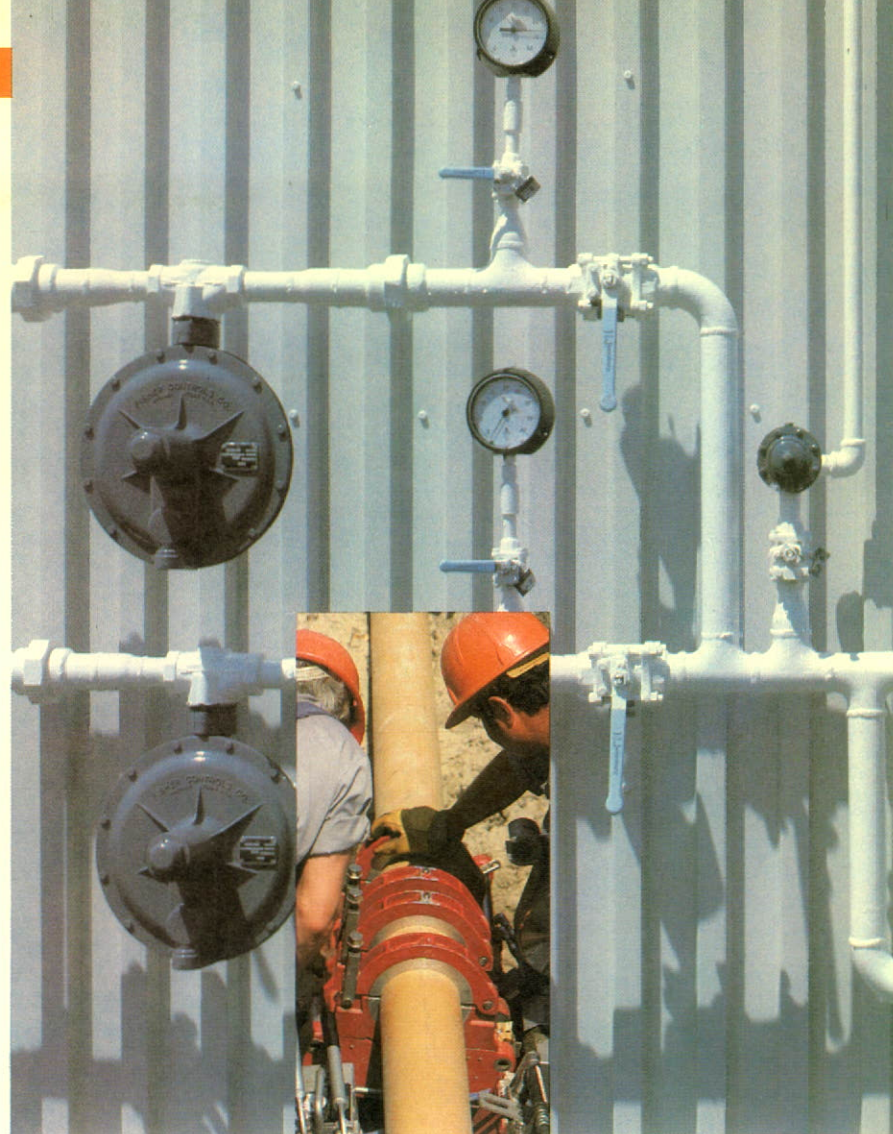
Regulation

As a public utility, Gaz Métropolitain is subject to regulatory control of the *Régie de l'Électricité et du Gaz du Québec*. The rates set by the *Régie* reflect operating costs, financing expenses and a reasonable return for shareholders. At the appropriate time, the Company must apply for rate reviews and prove that whatever increases it requests are justified.

Decisions Rendered in 1982

In 1982, for the first time, the *Régie* authorized the Company to use its budgetary forecasts instead of historic data as model in its rate review application. The use of projections makes it possible to reflect the impact of inflation on operating expenses and capital expenditures more accurately. This is an extremely important consideration during an expansionary period like the one now experienced by Gaz Métropolitain.

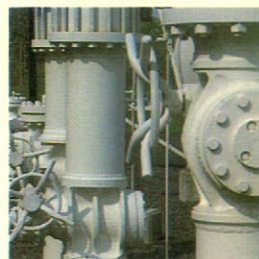
As of January 1982, the *Régie* provisionally authorized the Company to increase its rates by \$33,000,000, and it made this decision final in December. On the same occasion, it fixed the return on shareholders' equity deemed reasonable for the year at 18%.



The distribution, storage and sale of piped natural gas are regulated by the *Régie*.

In order to assure greater stability in the Company's financial results and allow customers to benefit from more equitable rates, the *Régie* also authorized the use of various stabilizing accounts. Their purpose is to lessen the impact of fluctuations in earnings caused by temperature variations, non-billed gas and the cost of financing. The Company was authorized to impute a total of \$5,958,000 to these accounts for 1982.

On October 19, 1982, based on its 1983 projections, the Company filed a rate review request for some \$19,000,000. If granted, this increase should enable Company needs for additional funds to be satisfied and provide a return of 17% on shareholders' equity. On February 21, 1983, the *Régie* granted the Company a provisional increase of \$16,500,000. Its final decision is expected very shortly.



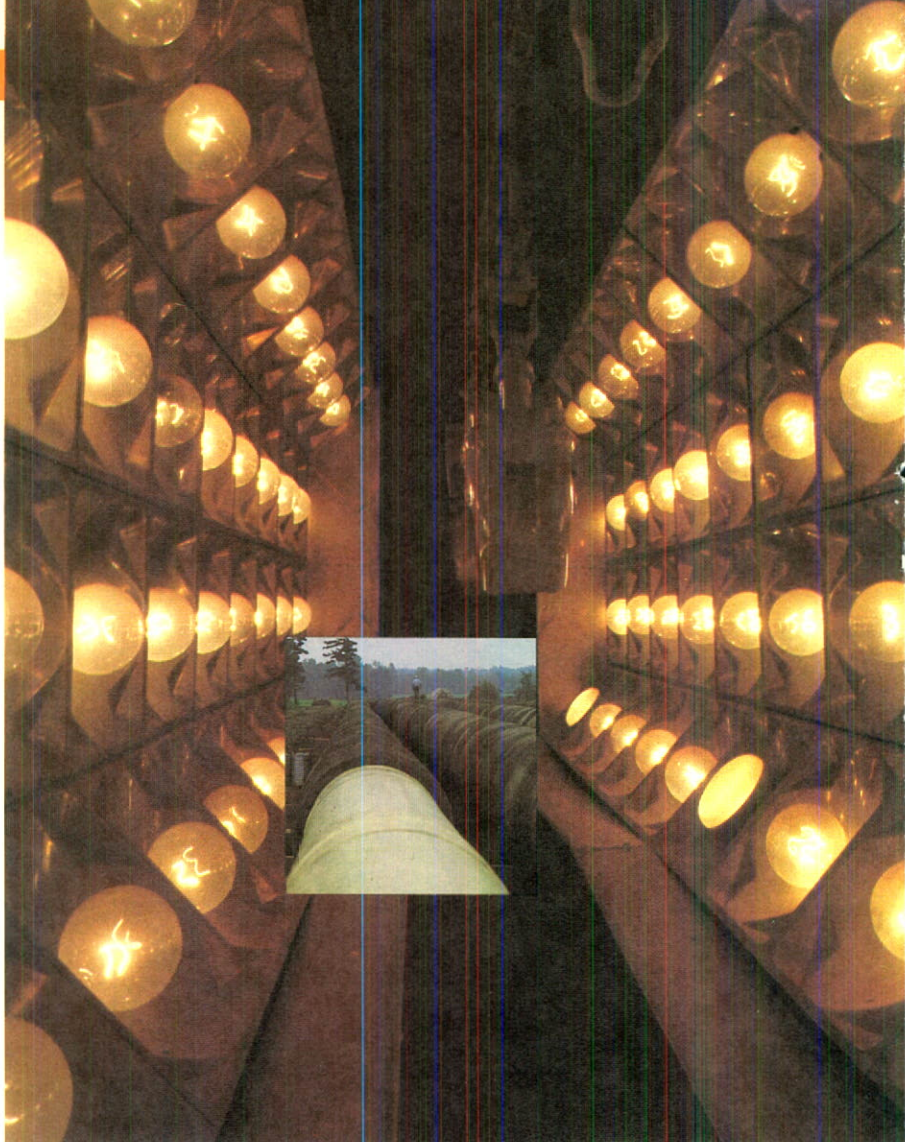
Above, the valves of the city gate station in a town newly served by gas.

Energy and Competitive Context

Gaz Métropolitain has developed a five-year plan to increase sales by 40%. This achievement would be a major contribution to Québec's energy goals. As the best substitute for oil, natural gas is abundant in Canada, accessible through the existing infrastructure and known for its contribution to industrial growth.



The main deposits of natural gas are in western Canada, the Arctic and off the Atlantic coast.

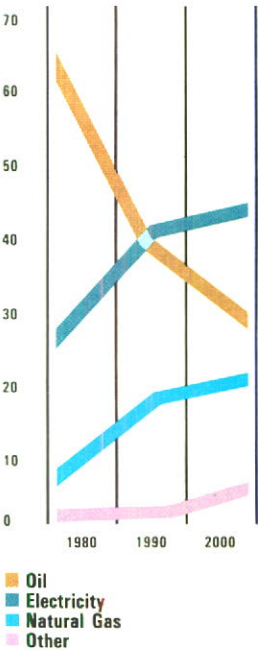


As a replacement fuel, natural gas will satisfy a growing share of Québec's energy needs. Advanced techniques and methods are used to facilitate market penetration.

Gas Option

The energy crisis which rocked the world in recent years has made Québec, like other parts of Canada, aware of the necessity for diversifying its sources of energy and increasing the security of its supplies. In this context, Quebec experts in the matter have retained the natural gas option because electricity alone cannot satisfy the requirements. According to these experts, the option consists of increasing the share of natural gas in Québec's energy balance from 7.5% to about 18% by 1990. The natural gas option is particularly justified since Canada has natural gas reserves far in excess of its traditional oil reserves, at a time when the oil sands megaprojects have been postponed, mainly for economic reasons.

Projected Energy Balance of Québec



Government Programs

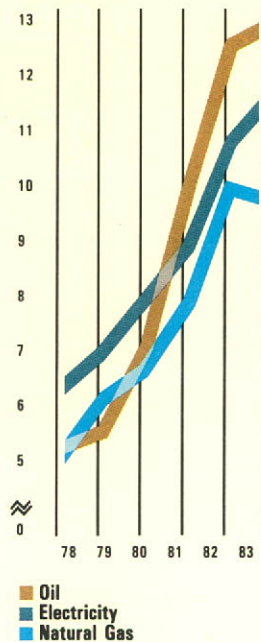
The government of Canada has adopted a series of measures in the National Energy Program which have a direct impact on natural gas distributors. As noted earlier, the price of natural gas is now fixed in a way which gives it a competitive edge over petroleum products. Grant programs have been implemented to promote the conversion of oil based systems in industrial and commercial establishments and homes to natural gas. In addition, a special fund (DSEP) was created to subsidize the construction of the distribution system, making it possible to serve a larger customer base.

The government of Québec has supported this approach and is providing an increasingly large share for natural gas in its energy balance. Specifically, it abolished the 9% tax on natural gas sales as of January 1, 1983.

Surplus Fuel Oil and Electricity

While natural gas enjoys the support of government programs, in the market place it must face the determined competition from surplus fuel oil and electricity.

Cost of Various Forms of Energy
Cost/10⁶ BTUs



Mainly used by large volume consumers, fuel oil is a by-product of the petroleum refining process. This gives its price a flexibility not available to natural gas. Québec refineries are now producing substantial surpluses of fuel oil which must be disposed of in the Québec market, and the situation has been accentuated by recession and conservation. The implementation of upgrading projects to transform fuel oil into lighter oil products should help eliminate this problem. Until then, the Company's expansion program, which is tied to the ability of natural gas to compete with fuel oil, may be delayed, unless corrective measures to reabsorb the surpluses are implemented by government authorities.

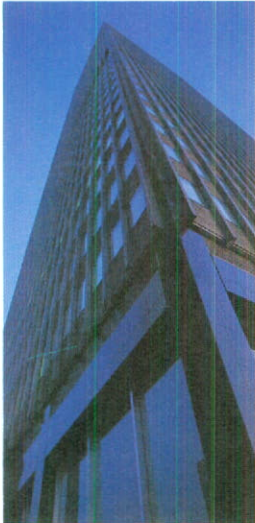
Meanwhile, to deal with the problem of surplus electricity, Hydro-Québec instituted a program to sell its surpluses to the industrial sector at a price below that of fuel oil.

This program, now ended for the 1982-83 period, did not noticeably affect the Company's development programs.

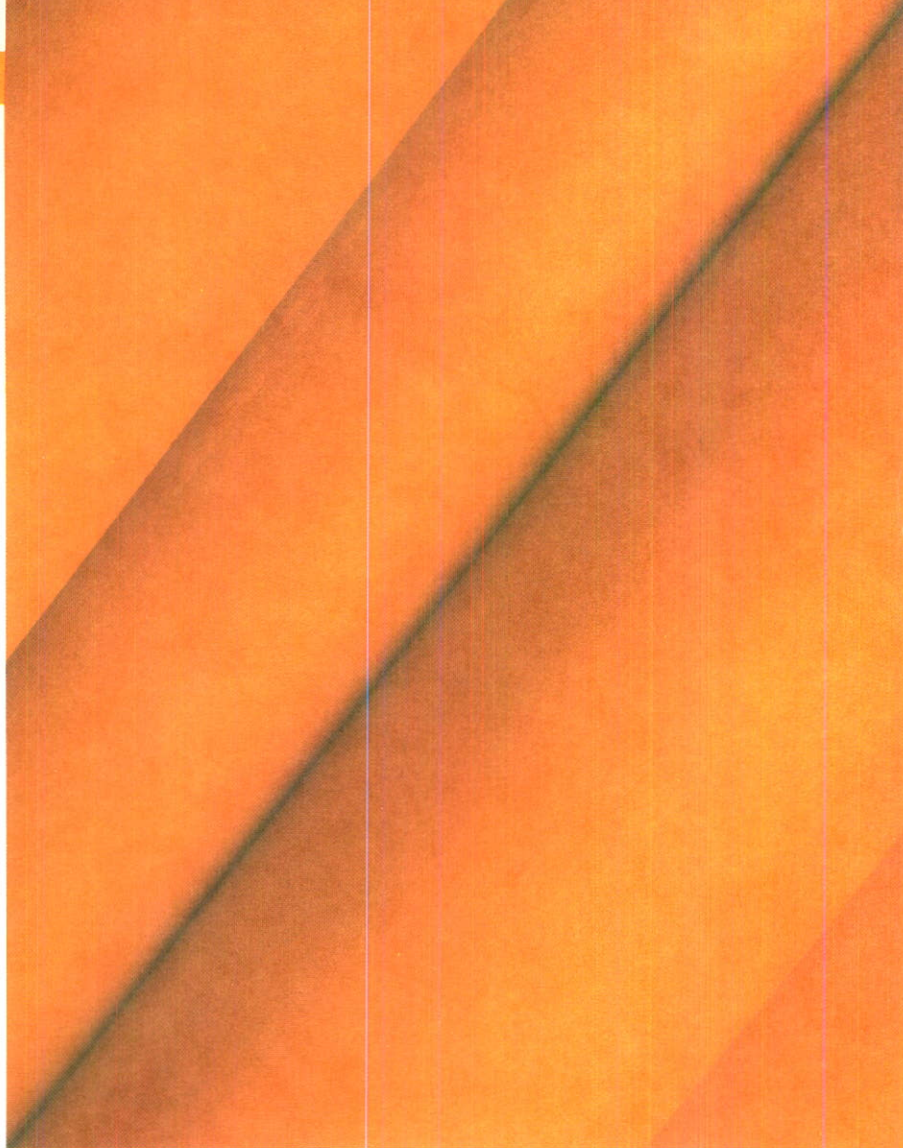
Because the Company is aware of the necessity for the non-disruptive displacement of petroleum products, Gaz Métropolitain will continue to make representations to the appropriate authorities in 1983.



Construction is underway. Above, the installation of mains to supply a new part of the territory.



The Canadian Imperial Bank of Commerce Building, in downtown Montreal, where the head office of Gaz Métropolitain is located.



Financial Results

Earnings applicable to common shares were \$22.9 million in 1982 (\$1.05 per share), compared with \$11.0 million in 1981 (\$0.69 per share). This income level is equivalent to a rate of return of 17.4% on common shareholders' equity, compared to 12.5% the previous year. This rate of return is slightly below the 18% return authorized by the Régie.

Revenues

Revenues from sales of natural gas were \$496,130,000, compared with \$404,173,000 in 1981, an increase of \$91,957,000. It arises from an increase in the cost of gas of \$61,112,000, the net result of an increase in the unit cost of gas and a decrease in the volumes sold, and also from other rate increases granted by the Régie which totaled \$30,845,000.

Total gas sales in 1982 were 2,741,170 cubic metres, compared to 2,912,590 cubic metres in 1981, a net decrease of 6%. Sales to the industrial sector, which were severely affected by the recession and the presence of a large surplus of heavy fuel oil, dropped 8% in firm service and 37% in interruptible service. On the other hand, sales in the residential and commercial sectors grew by 12%, primarily from the addition of new customers. This increase would have been even larger except for the continued impact of energy conservation measures and generally higher than normal temperatures.



Expenses

The cost of natural gas, which accounts for 83% of operating expenses, rose from \$320,177,000 at the end of 1981 to \$381,289,000 at the end of 1982. This increase, which reflects the Canadian government's policy of indexing the cost of natural gas to that of oil, brought the average cost of gas to \$136.67 per thousand cubic metres in 1982, compared to \$108.63 in 1981.

Operating and maintenance expenses increased by 37%, rising from \$38,707,000 in 1981 to \$52,860,000 in 1982. In addition to reflecting inflation, this increase is the result of the following factors:

Changes in Certain Accounting Practices

Changes in the method of capitalizing overhead and administrative expenses and the amortization of new deferred charges authorized by the Régie at the beginning of the year resulted in an increase of the portion charged to expenditures and amortization of \$875,000 and \$708,000 respectively.

Expenditures which Fluctuate with Revenues

Some expenditures fluctuate with revenues from sales. These include the royalties to the Régie and bad debts. Given the substantial increase in revenues in 1982, these expenses increased 24%.

Other Increases

Maintenance of quality customer services and increased surveillance of installations during the 1982 strike of operating employees entailed additional costs of \$1,815,000. Moreover, the Company continued to install an expanded management structure, due to the marked increase in its expansion program.

Depreciation increased by 44.5% in 1982 compared to 8.7% in 1981. This increase results from additions to property, facilities and equipment. Moreover, the Régie ordered the Company to begin the amortization of new deferred charges in 1982, including the expenses incurred in 1981 to install the organization necessary for the development of the Company's territory.

The application of individual amortization rates to capital expenditure was equivalent to an average rate of 3.69% in 1982, compared to 3.58% in 1981.

Property and other taxes increased 37.2% in 1982, compared to 45.0% in 1981. The method for taxing gas distribution systems calls for property taxes to be calculated on the gross revenues of the Company after deducting the cost of gas which increased by 19%.

Rate Stabilization Accounts

To avoid the unpredictable impact of particular events, the Régie authorized the Company, as of 1982, to create various rate stabilization accounts. The balance in these accounts at the end of a given fiscal year is used to offset the effects of reversed conditions in subsequent years. In 1982, use of these accounts had the effect of increasing net income by \$5,958,000.

Growth in Funds Required

The implementation of expansion projects meant that financing needs increased considerably in 1982. It is expected that this trend will continue in coming years.

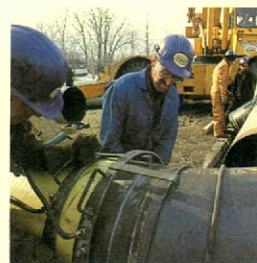
The application of funds totalled \$113,098,000. The largest amount was spent on capital expenditures, which reached \$102,130,000 in 1982, an increase of \$50,816,000 over 1981.

Funds retained, made up of retained earnings and amortization increased, from \$17,305,000 in 1981 to \$23,645,000 in 1982.

Financing

Financial markets underwent two phases in 1982. Interest rates, which were at high levels until August, then began to tumble, substantially improving accessibility to debt markets. On the stock market, eight months of stagnation gave way to a major rise in prices, caused by the simultaneous drop in interest rates.

The Company successfully floated three issues in 1982. The first, on July 14, was an issue of 8,150,000 common shares at a price of \$5.50 per share, for net proceeds of \$43,524,000. Of these shares, 3,150,000 were placed with individual and institutional investors. A large proportion of these shares were included in Québec Stock Savings Plans. SOQUIP acquired 4,000,000 shares and the Caisse de Dépôt et Placement du Québec 1,000,000, bringing their joint holdings of voting rights on common shares in the Company to 54.4%.



After the broad-based expansion of 1982, Gaz Métropolitain will use 1983 to consolidate its gains, before continuing its development program.

Given the large borrowing needs in 1982 and the advantages offered by the Canadian dollar Eurobond market, the Company issued \$20,000,000 of debentures on this market on July 15, bearing an interest rate of 17¼%, payable annually, at a price of 99¼%. These debentures, maturing on October 15, 1990, have a term of 8¼ years. The accessibility of this market will allow the Company to reduce its dependence on the Canadian market and increase its flexibility in future borrowings.

On December 1, the Company floated a similar issue on the same market, but on this occasion, the rate was 14½% payable annually, the price 100% and the amount \$40,000,000. These debentures, which mature on December 1, 1992, have a 10-year term. This issue is the largest loan ever floated by the Company.

Moreover, as part of the Company's Savings and Investment Plan for which some employees are eligible, 119,414 common shares at an average price of \$5.37 per share were issued for a total of \$641,000.

Capital Structure

In planning its financing, the Company has always tried to maintain a well balanced capital structure, thus optimising its cost of capital.

At the end of 1982, the capital structure stood at 51% long-term debt, 13% preferred shares and 36% in common equity.

The improvement in the capital structure and in the coverage of financial charges, which went from 1.68 times in 1981 to 2.28 times in 1982, was explicitly recognized by the two major bond rating agencies in Canada, which raised the Company's rating to a BBB (high) and B++ respectively. As the result of these re-evaluations, long-term debt issues should sell at relatively lower costs and receive greater acceptance in the markets.

Dividends

With the improvement in first quarter results and the encouraging prospects for the rest of 1982 the Company raised its quarterly dividend from \$0.10 to \$0.14 per share in the second quarter, for a total dividend of \$0.50 per share. The 1982 distribution represented 55% of the year's earnings. The Company intends to maintain a distribution rate, which allows shareholders to earn an attractive current return without disrupting the future development of the Company.

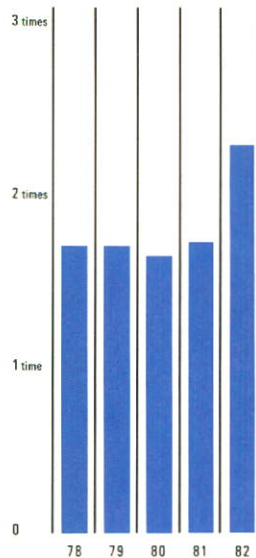
Projections

To meet estimated 1983 financing needs of \$50,000,000, the Company plans an issue of common shares and a long-term debt issue. The Company believes that common shares can be issued without diluting the holdings of its current shareholders. For the long-term debt issue, the Company intends to continue to issue debentures rather than first mortgage bonds, given the greater flexibility offered by the former instrument.

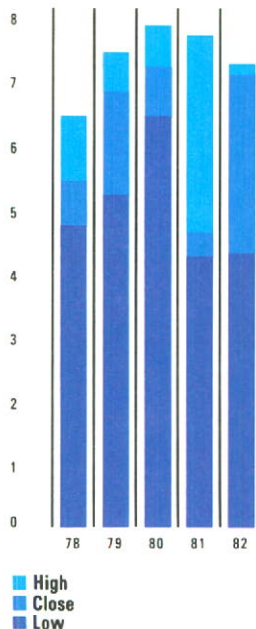
Market Value of Common Shares

The increase in the value of common shares in 1982 was quite remarkable. From \$4.55 per share at the beginning of the year, the price rose by \$0.70 in a few days, stabilizing at around \$5.25 per share in March. The first increase followed the publication of the 1981 results and the favorable reception of the Régie's provisional decision granting the Company a rate increase as of January 1. Later, in September, the price of the share experienced an increase to about \$6.00 followed by a further increase, beginning in mid-November, to reach \$7.00 by year end. These later increases followed the drop in interest rates and the improvement in the financial results of the Company.

Interest Coverage Ratio (after taxes - times)



Changes in Share Prices



Income

Year ended December 31

(in thousands of dollars)

	1982	1981	1980
Revenues	\$ 501,861	\$ 408,276	\$ 309,521
Expenses			
Cost of gas	381,289	320,177	235,630
Operation and maintenance	52,860	38,707	32,718
Depreciation and amortization	18,240	12,622	11,612
Property and other taxes	5,072	3,698	2,551
Interest on long term debt	21,655	16,777	11,171
Other financial expenses	441	2,904	5,776
	479,557	394,885	299,458
Income before rate stabilization accounts	22,304	13,391	10,063
Rate stabilization accounts	5,958	—	—
Net income for the year	28,262	13,391	10,063
Dividends on preferred shares	5,384	2,380	2,449
Net income applicable to common shares	\$ 22,878	\$ 11,011	\$ 7,614
Earnings per common share	\$ 1.05	\$ 0.69	\$ 0.55
Weighted average of outstanding common shares	21,780,866	16,041,097	13,958,905

Retained earnings

Year ended December 31

(in thousands of dollars)

	1982	1981	1980
Balance at beginning	\$ 32,429	\$ 27,802	\$ 24,375
Net income for the year	28,262	13,391	10,063
	60,691	41,193	34,438
Dividends			
Preferred shares	5,384	2,380	2,449
Common shares	11,621	6,384	4,187
Write-off of prior years expenses on issue of preferred shares	913	—	—
	17,918	8,764	6,636
Balance at end (note 9)	\$ 42,773	\$ 32,429	\$ 27,802

Balance sheet
at December 31

(in thousands of dollars)

Investments
Working capital
Current assets
Cash
Accounts receivable
Unbilled gas sales
Inventories (note 2)
Prepayments
Current liabilities
Accounts payable and accrued liabilities
Short term borrowing (note 3)
Property, plant and equipment (note 4)
Other assets
Investments
Land held for sale
Deferred charges (note 5)
Rate stabilization accounts (note 6)
Capitalization
Long term debt (note 7)
Preferred shares (note 8)
Common shareholders' equity (note 9)

1982

1981

\$ 1,620 \$ 1,610

59,697 39,993

28,897 22,469

48,154 32,065

470 772

138,838 96,909

92,666 63,846

33,041 21,810

125,707 85,656

13,131 11,253

377,470 287,007

1,215 —

2,898 2,516

26,400 24,621

5,958 —

36,471 27,137

\$427,072 \$325,397

216,008 168,406

54,584 55,384

156,480 101,607

\$427,072 \$325,397

On behalf
of the Board,

Pierre Martin

Director

Jean Gaudin

Director

Auditors' report
To the Shareholders of Gaz Métropolitain, inc.

We have examined the statements of income, retained earnings and changes in financial position of Gaz Métropolitain, inc. for the year ended December 31, 1982, and its balance sheet at that date. We have obtained all the information and explanations we have required. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the company, these financial statements are properly drawn up so as to exhibit a true and correct view of the results of the operations of the company and the changes in its financial position for the year ended December 31, 1982 and of the state of its affairs as at that date in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Samson Bélair
Chartered Accountants

Thorne Riddell
Chartered Accountants

Montréal, Canada
March 11, 1983.
March 28, 1983 as to note 6.

**Changes in
financial position**
Year ended December 31
(in thousands of dollars)

	1982	1981	1980
Source of funds			
Net income	\$ 28,262	\$ 13,391	\$ 10,063
Depreciation and amortization	18,240	12,622	11,612
Rate stabilization accounts	(5,958)	—	—
Other	106	56	3
Funds provided from operations	40,650	26,069	21,678
Less dividends	(17,005)	(8,764)	(6,636)
Funds retained	23,645	17,305	15,042
New issues			
Long term debt	60,000	20,000	45,000
Preferred shares	—	20,000	—
Common shares	44,165	22,420	—
Term note payable	—	—	20,000
	104,165	62,420	65,000
Refunds and redemptions			
Long term debt	12,398	8,568	27,040
Preferred shares	436	590	680
	12,834	9,158	27,720
Net proceeds from financing	91,331	53,262	37,280
	\$114,976	\$ 70,567	\$ 52,322
Investment of funds			
Additions to property, plant and equipment	\$102,130	\$ 51,314	\$ 29,361
Investments	1,215	—	—
Deferred charges	9,373	6,925	3,913
Other	380	(127)	141
	\$113,098	\$ 58,112	\$ 33,415
Increase in working capital	\$ 1,878	\$ 12,455	\$ 18,907
Working capital at beginning (note 11)	11,253	(1,202)	(20,109)
Working capital at end	\$ 13,131	\$ 11,253	\$ (1,202)

Notes to financial statements

Year ended December 31,
1982 (Tabular amounts
are expressed in thousands
of dollars)

1. Summary of significant accounting policies

a) Regulation

The Company is engaged in the distribution of natural gas and, therefore, several of its activities, in particular the approval of rates for gas sales and the elaboration of accounting policies, are subject to the supervision and control of the *Régie de l'Électricité et du Gaz du Québec* (Gas Board). The rates for gas sales are set to permit the Company to cover its operating expenses and to obtain a reasonable return on its investments.

b) Revenues

Revenues from gas sales are recorded on the basis of volumes consumed by its customers including the volumes delivered but not billed at the end of the year.

c) Inventories

Natural gas in storage is carried at the lower of cost and net realizable value. Inventories of materials and supplies are carried at average cost.

d) Deferred charges

The Company defers certain costs and expenses which are being amortized and recovered in its rates over various time periods not exceeding 20 years.

e) Property, plant and equipment

Plant additions, renewals and betterments are capitalized at cost, including direct costs, general and administrative expenses as accepted by the Gas Board and interest on funds used during construction.

Upon retirement, the historical cost of retired properties related to the distribution system is deducted from accumulated depreciation. Under this method no gain or loss on disposal of assets is realized.

f) Depreciation

Assets are depreciated using the straight-line method at various rates approved by the Gas Board and applied in conformity with its policy of recovering the unamortized cost of the properties over their remaining useful life, based on a periodic evaluation.

g) Land held for sale are evaluated at their net realizable value.

h) Income taxes

The Company claims, for income tax purposes, capital cost allowances and certain other deductions in excess of the amounts reflected in the accounts, thereby deferring to future years income taxes which would have otherwise been payable.

These income taxes deferred to future years have not been recorded in the accounts since only income taxes payable are included in current rates for gas sales; future rates should include income taxes then payable.

i) Earnings per share

Earnings per common share are calculated using the weighted average of the number of common shares outstanding during the year.

j) Translation of United States currency

Long term debt payable in United States currency has been translated in the balance sheet at rates of exchange effective at dates of issue. The long term debt maturing within one year is converted into Canadian dollars at the rate of exchange effective at the end of the year; exchange gains or losses are included in the net amount of other financial expenses disclosed in the statement of income.

2. Inventories

	1982	1981
Natural gas in storage	\$ 41,025	\$ 26,363
Materials and supplies	7,129	5,702
	<u>\$ 48,154</u>	<u>\$ 32,065</u>

3. Short term borrowing

	1982	1981
Notes payable	\$ 21,315	\$ 13,926
Long term debt due within one year	11,726	7,884
	<u>\$ 33,041</u>	<u>\$ 21,810</u>

4. Property, plant and equipment

	1982		
	Cost	Accumulated depreciation	Net
Storage	\$ 13,504	\$ 4,302	\$ 9,202
Distribution	374,159	40,712	333,447
Rental equipment	11,556	5,991	5,565
General plant	27,196	7,520	19,676
	\$426,415	\$ 58,525	367,890
Deviation of accumulated depreciation*			9,580
			\$377,470
	1981		
	Cost	Accumulated depreciation	Net
Storage	\$ 13,509	\$ 3,923	\$ 9,586
Distribution	283,580	40,068	243,512
Rental equipment	11,885	5,624	6,261
General plant	21,942	5,150	16,792
	\$330,916	\$ 54,765	276,151
Deviation of accumulated depreciation*			10,856
			\$287,007

*The Gas Board regularly reviews the Company's depreciation rates and accumulated depreciation. Revised depreciation rates have been approved by the Gas Board and the Company has been directed to increase certain accumulated depreciation balances by an amount of \$16,119,000. This amount will be amortized and recovered in the Company's gas rates over periods varying from three to fifteen years.

Depreciation rates applied in 1982 vary from 2% to 24%. The application of the individual rates on each type of assets equates to an average composite of 3.69% in 1982, 3.58% in 1981 and 3.38% in 1980. Capitalized interest, overhead and administrative expenses for the year ended December 31, 1982 amounted to \$6,445,000 (\$3,928,000 in 1981 and \$2,253,000 in 1980).

5. Deferred charges

	1982	1981
Debt issue expenses	\$ 4,890	\$ 3,389
Costs related to the retirement of plant facilities	8,297	10,165
Expansion costs	10,584	5,366
Other	2,629	5,701
	\$ 26,400	\$ 24,621
Amortization for the year including \$397,000 (\$322,000 in 1981 and \$232,000 in 1980) of debt issue expenses	\$ 6,679	\$ 2,798

6. Rate stabilization accounts

To avoid the unpredictable and uncontrollable effects of certain events, the Gas Board has authorized the Company to create since January 1, 1982 several rate stabilization accounts. The balance in these accounts should be used to eliminate the effects of reversed conditions in future years.

For this year, the Gas Board authorized on March 10 and 28 of 1983 that the amounts of \$4,276,000 and \$1,682,000 be allocated to these accounts, with the result that net income for the year has increased by:

Weather normalization	\$ 4,282
Unaccounted cost of gas normalization	1,911
Financial expenses normalization	(235)
Current year effects of rate stabilization accounts on income	5,958
Balance as at December 31, 1981	—
Balance as at December 31, 1982	\$ 5,958

Notes to financial statements

7. Long term debt

	Year of maturity	Due within one year	1982	1981
First mortgage bonds				
6% Series	1987	\$ 275	\$ 3,546	\$ 3,821
5½% Series (1)	1987	160	1,739	1,879
6% Series	1988	135	2,090	2,270
7% Series	1990	300	2,700	2,990
8½% Series (1)	1990	1,735	18,738	20,473
15% Series "C"	1990	875	23,250	24,125
8¾% Series (1)	1992	528	8,976	9,504
11% Series (1)	1993	380	7,220	7,600
11¾% Series	1993	120	2,280	2,400
11¼% Series	1995	480	8,640	9,120
17¼% Series "D"	1996	1,000	19,000	20,000
10½% Series "A"	1998	375	7,200	7,500
10½% Series "B"	1998	125	2,400	2,500
Premium on exchange rate of U.S. funds (1)		641	1,831	1,850
		7,129	109,610	116,032
General mortgage bonds				
6% Series "G"	1988	350	5,600	5,950
6% Series "I"	1989	90	1,485	1,560
		440	7,085	7,510
Debentures				
9½% Series "A"	1991	525	9,525	10,050
9¾% Series "B"	1991	525	9,525	10,050
17¼% Series	1990	1,000	20,000	—
14½% Series	1992	1,600	40,000	—
		3,650	79,050	20,100
Convertible unsecured debentures				
12% Series "A" (2)	2000	—	20,000	20,000
Subordinated debentures				
5¾% Series	1985	507	11,500	11,985
			227,245	175,627
Due within one year		\$11,726	11,726	7,884
Long term debt			215,519	167,743
Early retirements			489	663
			\$216,008	\$168,406

Annual payments to be made on long term debt during the five-year period ending December 31, 1987 are:

1983: \$11,726,000 1984: \$11,488,000
1985: \$22,021,000 1986: \$11,505,000
1987: \$15,067,000

1) These bonds are payable in U.S. funds. Translation of such issues at the rate of exchange prevailing at year-end would result in an increase of long term debt of \$6,561,000 as of December 31, 1982 (\$5,533,000 in 1981 and \$6,031,000 in 1980).

2) These debentures are convertible into common shares of the Company, until December 31, 1990 at the rate of 125 common shares for \$1,000 of debentures. Accordingly, as of December 31, 1982, 2,500,000 common shares were reserved for the conversion of these debentures into common shares. The conversion of these debentures into common shares would not have diluted the earnings per share.

8. Preferred shares

		1982	1981
Authorized			
300,000	Preferred shares with a par value of \$100 each, issuable in series		
5,000,000	Second preferred shares with a par value of \$25 each, issuable in series		
Issued			
100,000	5.40% cumulative preferred shares, 1965 Series, currently redeemable at \$101 per share (1)	\$ 10,000	\$ 10,000
75,000	5½% cumulative preferred shares, 1966 Series, currently redeemable at \$102 per share (1)	7,500	7,500
683,371	7.85% cumulative, second preferred shares, Series "A" redeemable (715,371 as at December 31, 1981) (2)	17,084	17,884
800,000	15% cumulative, second preferred shares, Series "B" redeemable (3)	20,000	20,000
		\$ 54,584	\$ 55,384

- 1) These shares have the same retraction privilege as the one attached to the second preferred shares, 15%, Series "B".
- 2) These shares are redeemable since December 16, 1982 at an initial price of \$26 per share decreasing annually to \$25 per share after December 16, 1987. In addition, the Company shall make all reasonable efforts to purchase for cancellation on the open market up to a maximum of 8,000 of such shares during each calendar quarter, at a price not exceeding \$25 per share, plus costs of purchase.

- 3) These shares issued in December 1981 will be redeemable beginning January 1, 1987 at an initial price of \$26 per share decreasing annually to \$25 per share after January 1, 1992. From January 1, 1985, the Company shall make all reasonable efforts to purchase for cancellation on the open market up to 6,000 of such shares during each calendar quarter, at a price not exceeding \$25 per share plus costs of purchase. From January 1, 1987, this obligation, during each calendar quarter, will be 0.75% of the number of outstanding shares on January 1, 1987. These shares are retractable on December 31, 1986.

9. Common shareholders' equity

	1982	1981
Shares		
Authorized		
46,000,000 shares without par value		
Issued		
26,228,319 shares (17,958,905 as at December 31, 1981)	\$106,386	\$ 62,221
Contributed surplus (1)	7,321	6,957
Retained earnings (2)	42,773	32,429
	\$156,480	\$101,607

- 1) Profits of \$364,000 related to the purchase for cancellation of 32,000 second preferred shares, 7.85%, Series A, for the year ended December 31, 1982 and \$210,000 in 1981 related to the purchase of 32,000 shares have been credited to contributed surplus.
- 2) As at December 31, 1982, retained earnings included an amount of \$2,916,000 not available for distribution before the second preferred shares, 7.85%, Series A, purchased by the Company, have been cancelled.

Trust deeds and agreements related to the Company's commitments on long term debt include clauses which restrict the payment of dividends. Under the terms of the most restrictive clause, retained earnings available for dividends amounted to approximately \$25,069,000 as at December 31, 1982 (\$15,525,000, as at December 31, 1981).

Notes to financial statements

10. Pension plans

The Company maintains two defined benefit pension plan, one related to the managerial employees and the other to the unionized employees. In accordance with the last actuarial appraisal the balance of the initial and experienced unfunded liabilities amounted to \$1,845,000 as at December 31, 1981.

This amount will be paid and charged against income over the next 10 years. The payments required, including interest, for the next five years are \$426,000 annually.

Total charges relating to the pension plan costs amount to \$1,634,000 for the year ended December 31, 1982 (\$1,430,000 in 1981 and \$1,338,000 in 1980).

11. Adjustment and comparative figures

The inclusion of notes payable in the working capital required an adjustment of prior years.

	1981	1980
Working capital at end, as reported	\$ 25,179	\$ 22,190
Notes payable	13,926	23,392
Working capital at end, adjusted	\$ 11,253	\$ (1,202)

The presentation of 1981 and 1980 figures has been modified to reflect the presentation adopted in 1982.

12. Directors and senior officers' remuneration

The basic remuneration paid to the Directors and Senior Officers of the Company aggregated \$1,028,000 for 1982 (\$853,000 for 1981 and \$612,000 for 1980).

13. Deferred income taxes

If the Company had accounted for deferred income taxes, it would have recorded in its accounts a provision of \$9,454,000 in 1982, \$6,167,000, in 1981, \$5,002,000 in

1980 and \$38,076,000 in prior years for a cumulative amount of \$58,699,000 as at December 31, 1982.

14. Economic dependance and commitments

In accordance with several agreements expiring in 1987, approximately 15% of the Company's gas sales are sold to two major customers. Virtually all gas supplies of the

Company are purchased from two suppliers in accordance with long term contracts.

15. Contingencies

a) Land held for sale

The Company is the owner of land in Ville LaSalle, on which contaminants were dumped in the ground at the time work was being performed by an independent contractor hired to empty and demolish storage tanks located on this land. Some decontamination work will have to be considered in order to respect the laws and regulations governing protection of the environment.

The Company has retained experts to determine exactly what work is required to clean the land and to evaluate the cost. The cost may vary appreciably depending on which method is necessary. Such cleaning work

will require preliminary agreement from the Ministère de l'Environnement du Québec.

Based on known information and facts, the Company believes it will obtain a favorable judgment against the originator of these damages through legal proceedings recently undertaken.

In the event that the Company must absorb the costs resulting from this situation, and as these events took place in 1977, these costs would be accounted for as a prior year adjustment.

15. Contingencies

(continued)

b) Income taxes

During the year the Company has received an income tax assessment which modifies the tax treatment adopted by the Company in relation to capitalized overhead costs and leak clamping costs for the fiscal years 1976 to 1981. As a result of these changes, there is no income tax payable during these years. The Company believes it has followed an acceptable treatment of these items; consequently, it has appealed the decision.

In case of an unfavorable decision, the company would have, for 1982, an income tax payable of approximately \$2,138,000, which would reduce the current year's deferred income taxes by the same amount (note 13). In conformity with the tariff approach followed by the Company on income taxes (note 1h), it intends to recover through the regulatory process any amount owing as a result of the above mentioned assessments.

Highlights

Year ended
December 31

	1982	1981	1980	1979	1978
Operating Statistics					
Gas Sales (10 ⁶ m ³)					
Industrial	1,630	1,923	1,756	1,728	1,596
Commercial	594	520	459	411	414
Residential	517	470	493	429	467
Plant Additions	\$ 102,130	\$ 51,314	\$ 29,361	\$ 25,146	\$ 15,995
Gross Plant at year end	\$ 426,415	\$ 330,916	\$ 283,501	\$ 257,726	\$ 238,793
Financial Statistics					
Net income applicable to common shares	\$ 22,878	\$ 11,011	\$ 7,614	\$ 6,828	\$ 5,707
Average number of common shares outstanding	21,780,866	16,041,097	13,958,905	11,958,905	9,958,905
Earnings per common share	\$ 1.05	0.69	\$ 0.55	\$ 0.57	\$ 0.57
Dividends per common share	\$ 0.52	\$ 0.40	\$ 0.30	\$ 0.40	\$ 0.40
Book value of common share at year end	\$ 5.97	\$ 5.66	\$ 5.33	\$ 5.07	\$ 4.69
Rate of return on investment	17.4%	12.5 %	10.5 %	11.6 %	12.3 %
Market price per common share					
High	7.25	7.63	7.75	7.34	6.38
Low	4.25	4.20	6.38	5.14	4.70
Closing	7.00	4.55	7.13	6.75	5.37
Interest coverage	2.28	1.68	1.59	1.64	1.54

**Financial
and operating
statistics**
1978-1982

years ended December 31

(in thousands of dollars)	1982	1981	1980	1979	1978
Income					
Revenue					
Gas sales	\$ 496,130	\$ 404,173	\$ 305,738	\$ 250,815	\$ 223,393
Other	5,731	4,103	3,783	3,891	3,824
Total revenue	501,861	408,276	309,521	254,706	227,217
Expenses					
Cost of gas	381,289	320,177	235,630	189,924	170,667
Operations and maintenance	52,860	38,707	32,718	28,747	24,818
Depreciation and amortization	18,240	12,622	11,612	10,208	8,288
Property and other taxes	5,072	3,698	2,551	1,863	1,494
Interest on long term debt	21,655	16,777	11,171	11,879	11,953
Other	441	2,904	5,776	2,748	2,255
Total expenses	479,557	394,885	299,458	245,369	219,475
Income before rate stabilization accounts	22,304	13,391	10,063	9,337	7,742
Rate stabilization accounts	5,958	—	—	—	—
Net income	28,262	13,391	10,063	9,337	7,742
Dividends on preferred shares	5,384	2,380	2,449	2,509	2,035
Net income applicable to common shares	\$ 22,878	\$ 11,011	\$ 7,614	\$ 6,828	\$ 5,707
Weighted average number of common shares outstanding during the year	21,780,866	16,041,097	13,958,905	11,958,905	9,958,905
Earnings per common share	\$ 1.05	\$ 0.69	\$ 0.55	\$ 0.57	\$ 0.57
Dividends paid on common share	\$ 0.52	\$ 0.40	\$ 0.30	\$ 0.40	\$ 0.40
Capitalization (\$)					
Long term debt*	\$ 216,008	\$ 168,406	\$ 156,974	\$ 119,014	\$ 130,196
Preferred shares	54,584	55,384	36,184	36,999	37,479
Common equity	156,480	101,607	74,350	70,788	46,721
	\$ 427,072	\$ 325,397	\$ 267,508	\$ 226,801	\$ 214,396
Capitalization (%)					
Long term debt*	51 %	52 %	58 %	52 %	61 %
Preferred shares	13	17	14	16	17
Common equity	36	31	28	32	22
Yield on common share	17.4%	12.5%	10.5%	11.6%	12.3%
Shares outstanding at the end	26,228,319	17,958,905	13,958,905	13,958,905	9,958,905
Book value per share	\$ 5.97	\$ 5.66	\$ 5.33	\$ 5.07	\$ 4.69

*Excludes current maturities on long term debt.

Financial and Operating Statistics 1978-1982 year ended December 31	(in thousands of dollars)	1982	1981	1980	1979	1978
	System data					
	Length of distribution pipe at year end (km)	3,095	2,771	2,732	2,704	2,675
	Expenditures for plant additions	\$102 130	\$ 51,314	\$ 29,361	\$ 25,146	\$ 15,995
	Gross plant at year-end	\$426 415	\$330,916	\$283,501	\$257,726	\$238,793
	Active customers at year-end					
	Industrial	1,539	1,484	1,417	1,394	1,390
	Commercial	13,225	12,086	11,349	10,919	10,649
	Residential—non heating	50,073	53,004	54,601	56,845	58,091
	Residential—heating	94,892	90,674	90,313	91,668	93,240
	Total	159,729	157,248	157,680	160,826	163,370
	Cost of gas (per 10 ³ m ³)	\$ 136.67	\$ 108.63	\$ 86.26	\$ 74.32	\$ 67.99
	Consumption per residential customer (10 ³ m ³)	3.57	3.27	3.40	2.89	3.09
	Degree day	4,575	4,398	4,873	4,470	4,930
	Gas deliveries					
	Gas revenues (\$)					
	Industrial firm	\$224,933	\$188,661	\$127,090	\$ 93,766	\$ 88,818
	Industrial subject to curtailment	44,097	54,570	48,308	53,990	36,690
	Commercial	116,000	79,402	58,382	46,316	42,158
	Residential	110,628	81,110	71,629	56,445	55,228
	Liquefied natural gas	472	430	329	298	499
	Total	\$496,130	\$404,173	\$305,738	\$250,815	\$223,393
	Gas sales (10 ⁶ m ³)					
	Industrial firm	1,332	1,453	1,195	988	1,038
	Industrial subject to curtailment	296	468	559	738	554
	Commercial	594	520	459	411	414
	Residential	517	470	493	429	467
	Liquefied natural gas	2	2	2	2	4
	Total	2,741	2,913	2,708	2,568	2,477
	Maximum day send-out (10 ³ m ³)	14,330	13,172	12,358	11,287	10,696

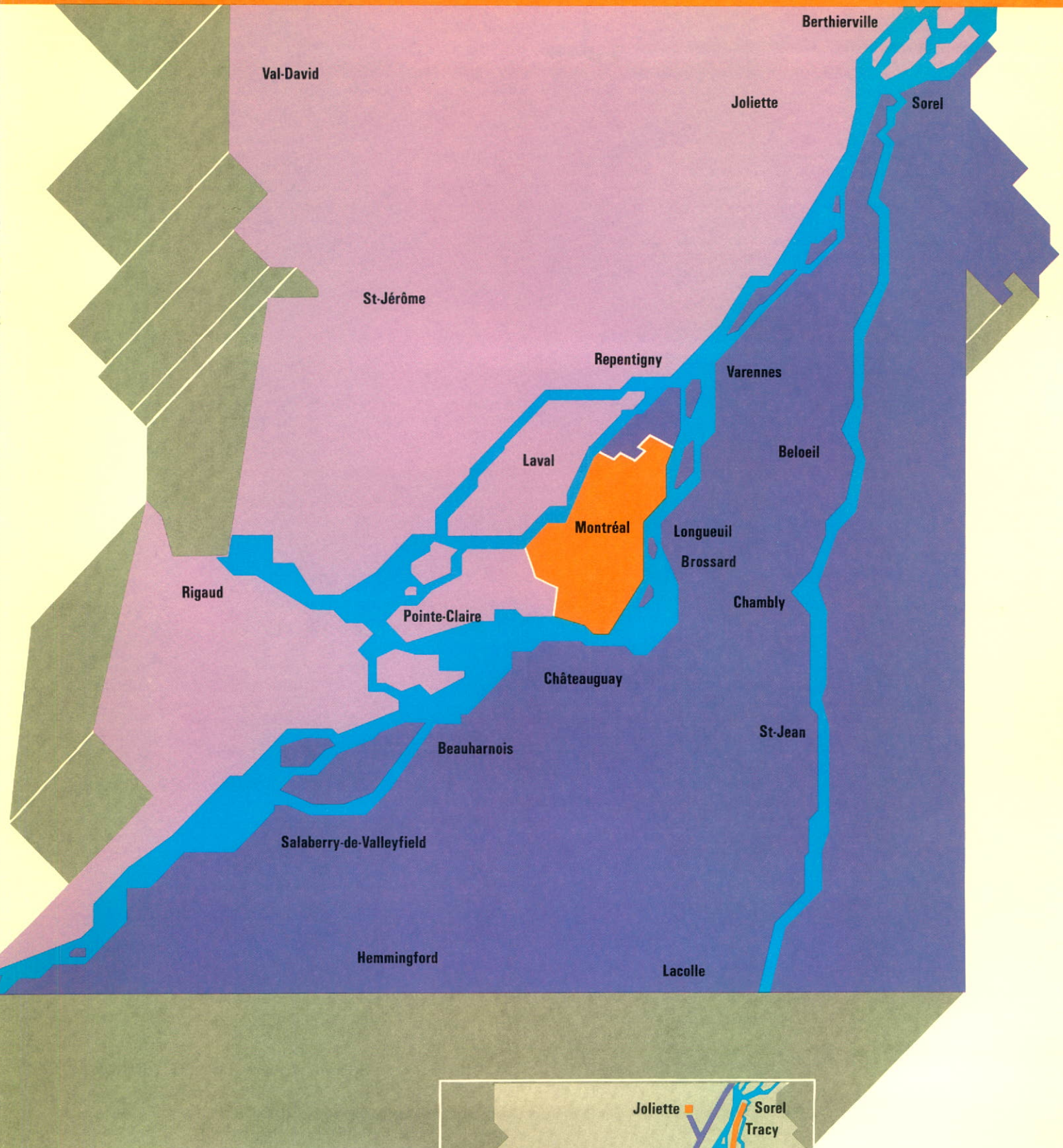
**Summary of
quarterly financial
data (unaudited)**

Year ended December 31	(in thousands of dollars except for per share data)	December 31	Three months ended		March 31
			September 30	June 30	
1982*					
Sales and other revenues		\$165,068	\$ 70,832	\$ 96,530	\$169,431
Net income (loss) applicable to common shares		\$ 16,915	\$ (9,646)	\$ (3,719)	\$ 19,328
Net income (loss) per common share		\$ 0.65	\$ (0.39)	\$ (0.21)	\$ 1.08
Dividend paid per common share		\$ 0.14	\$ 0.14	\$ 0.14	\$ 0.10
Market price per common share					
High		\$ 7 1/4	\$ 6 1/4	\$ 5 3/4	\$ 5 1/2
Low		\$ 5 1/2	\$ 5 1/4	\$ 4.95	\$ 4 1/4

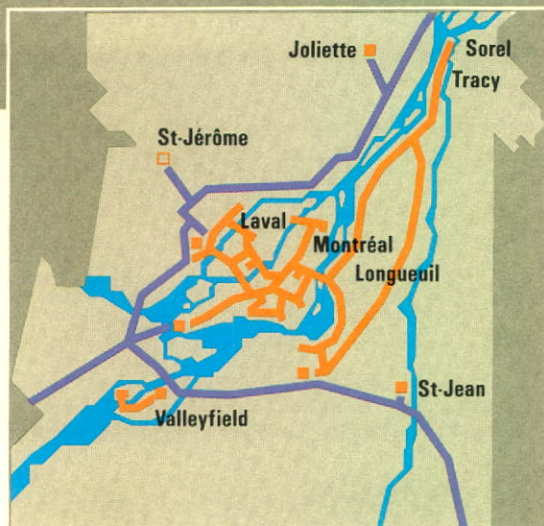
*The 1982 quarterly financial data have been restated following decisions from the *Régie* dated March 10 and 28, 1983.

	December 31	Three months ended		March 31
		September 30	June 30	
1981*				
Sales and other revenues	\$125,276	\$ 71,904	\$ 87,014	\$124 082
Net income (loss) applicable to common shares	\$ 8,394	\$ (3,764)	\$ (972)	\$ 7,353
Net income (loss) per common share	\$ 0.42	\$ (0.19)	\$ (0.07)	\$ 0.57
Dividend paid per common share	\$ 0.10	\$ 0.10	\$ 0.10	\$ 0.10
Market price per common share				
High	\$ 5 3/8	\$ 6	\$ 6 5/8	\$ 7 5/8
Low	\$ 4 1/5	\$ 4 3/4	\$ 5 7/8	\$ 6 5/8

*The 1981 quarterly financial data have been restated following a decision from the *Régie* dated March 12, 1982.



- Northern Region
- Central Region
- Southern Region



- City Gate Station
- Proposed City Gate Station
- Existing Gaz Métropolitain Mains
- Existing T.C.P.L. & T.Q.M. Mains

Directors

- ²Jean F. Béique
Managing Director — Investments
CN Investments Division
Canadian National Railways
Since April 29, 1981
- ^{1,4}Richard Boivin
Vice-President, Engineering
Laboratoire d'hydraulique Lasalle Ltée
Since April 29, 1981
- ²Roger Charbonneau, O.C.
President
Laboratoires Anglo-French Ltée
Since April 6, 1979
- ⁴Jacques Courtois, Q.C.
Partner
Stikeman, Elliott, Tamaki, Mercier & Robb
Since October 28, 1960
- ^{1,4}Jean Gaulin
President and Chief Executive Officer
Gaz Métropolitain, Inc.
Since April 15, 1982
- ²Jean-Louis Gauvin
Consulting Actuary
Pouliot, Guérard & Associés Inc.
Since April 29, 1981
- ³Philippe Girard
Principal Manager
Securities Investment Department
Caisse de dépôt et placement du Québec
Since April 29, 1981
- ¹Jean A. Guérin
Vice-President, Planning
Société québécoise d'initiatives
pétrolières (Soquip)
Since April 29, 1981
- ³Jean-René Halde
President and Chief Executive Officer
Groupe des Épiciers Unis
Métro-Richelieu Inc.
Since April 15, 1982
- ^{1,3}Henri Joli-Coeur
President
Société Nationale d'Assurances
Since April 29, 1981

¹Member of the Executive
Committee

²Member of the Auditors'
Committee

³Member of the Pension Plan
Board Committee

⁴Member of the Remuneration
Committee

Jean-Jacques Leroux
Chairman of the Board
Northern and Central Gas
Corporation Limited
Since October 1, 1965

^{1,4}Pierre Martin
President and Manager
Société québécoise d'initiatives
pétrolières (SOQUIP)
Since April 15, 1981

¹Charles Perrault
President
Perconsult Ltd.
Since April 21, 1975

Robert L. Vachon
Chairman of the Board
The Christie Group Ltd.
Since April 15, 1982

Officers

Pierre Martin
Chairman of the Board

Jean Gaulin
President and Chief Executive Officer

Joseph Baladi
Vice-President, Energy Resources and
Development

André Caillé
Vice-President, Corporate and Public Affairs

Marc G. Fortier
Vice-President, Legal and Secretary

Donald Hotte
Vice-President, Administration

Gaston LongVal
Vice-President, Operations

Luc Meilleur
Vice-President, Human Resources

Robert Noël
Vice-President, Marketing

Robert Normand
Vice-President, Finance and Regulatory
Matters

Denis Chouinard
Treasurer

Gérard Doucet
Assistant-Treasurer

Louise Legaré
Assistant-Secretary

Additional Information

Securities

Common Shares

Listed on the Montréal and Toronto Stock Exchanges
Common Shares (GZM)

Transfer Agent: Compagnie Montréal Trust, Montréal, Toronto, Winnipeg, Regina, Calgary and Vancouver
Citibank N.A., New York

Preferred Shares

Listed on the Montréal and Toronto Stock Exchanges
1965 5.40% \$100

(GZM PR. A)*

1966 5½% \$100

(GZM PR. B)*

Series B, second pref. 15%, \$25

(GZM PR. C)*

*retractable on 12-31-1986

Transfer Agent: Compagnie Montréal Trust, Montréal, Toronto, Winnipeg, Regina, Calgary and Vancouver

Dividend Disbursing Agent: Compagnie Montréal Trust, Montréal

Bonds and Debentures

Trustees, Paying Agents and Transfer Agents

First Mortgage Bonds:

Trustees: Royal Trust, Montréal

Morgan Guaranty Trust Company of New York

Principal Paying Agent: Royal Bank of Canada, Montréal

Morgan Guaranty Trust Company of New York

General Mortgage Bonds:

Trustee: La Société Canada Trust, Montréal

Principal Paying Agent: Royal Bank of Canada, Montréal

Debentures — Series A and Series B:

Trustee: National Trust Company, Limited, Montréal

Debentures:

17¼% due October 15, 1990

14½% due December 1, 1992

Trustee: La Compagnie de Fiducie Canada Permanent, Montréal

Principal Paying Agent: Canadian Imperial Bank of Commerce, Montréal

Convertible Debentures

12% Series A

Trustee: Trust Général du Canada, Montréal

Paying Agent: Canadian Imperial Bank of Commerce

Subordinate Debentures:

Trustees: Compagnie Montréal Trust, Montréal

Chemical Bank, New York

Principal Paying Agents:

Royal Bank of Canada, Montréal

Morgan Guaranty Trust Company of New York

Conversion to the Metric System

In compliance with the Canada Metric Commission, the Company is in the process of adopting the SI international system of units which appears in this report. We have prepared the following table to enable readers to convert SI units into imperial units.

SI Symbols and Conversion Factors

Length: m metre

1 metre 2,2808 ft

thousand metres 1 km

1 km 0,6214 mile

Volume:

m³ cubic metre

1 m³ 35,3010 cubic feet

thousand cubic metres 10³m³

10³m³ 35,3010 M cubic ft

million: cubic metres 10⁶m³

10⁶m³ 35,3010 MMcubic ft

Heat:

J joule

J 0,000 948 BTU

one million joules MJ

1 MJ 948,2133 BTU

Gaz Métropolitain, inc.

Head Office

1155 Dorchester Blvd. West,
Montréal (Québec) H3B 3S7
Telephone: (514) 598-3444

Operation Centres

Centre
1717 du Havre
Montréal (Québec) H2K 2X3

North
1700 Laval Blvd.
Suite 102
Laval (Québec) H7S 2J2

South
45 Taschereau Blvd.
Greenfield Park (Québec)
J4V 2G8

Le rapport annuel de Gaz Métropolitain est disponible en français et en anglais. Pour la version française veuillez vous adresser à:

Gaz Métropolitain
Trésorerie
1717 du Havre
Montréal (Québec) J2K 2X3



1155 Dorchester Blvd. West
Montréal (Québec)
H3B 3S7